

Message Text

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FM SECSTATE WASHDC
TO AMEMBASSY BELGRADE PRIORITY

C O N F I D E N T I A L STATE 309537

LIMDIS

E.O. 11652: GDS

TAGS: ENRG, OPEC, YO

SUBJECT: YUGOSLAV REPLY TO SECRETARY'S LETTER ON OPEC
PRICE RISE

1. YUGOSLAV EMBASSY ECONOMIC COUNSELOR ACKOVSKI CALLED ON
ASSISTANT SECRETARY KATZ DECEMBER 21 TO DELIVER COPY OF
FOREIGN SECRETARY MINIC'S REPLY TO SECRETARY KISSINGER'S
LETTER OF OCTOBER 18 ON OPEC PRICE ISSUE.

2. BEGIN SUMMARY OF LETTER. MINIC REPLY PLACES ISSUE IN
CONTEXT OF NORTH/SOUTH ECONOMIC RELATIONS. IT QUOTES OIL-
PRODUCING COUNTRIES' RATIONALE THAT A PRICE RISE IS
JUSTIFIED BECAUSE INFLATION IN INDUSTRIALIZED COUNTRIES HAS
RAISED PRICES OF INDUSTRIAL PRODUCTS THEY IMPORT. REFER-
RING TO PRINCIPLE OF NATIONAL SOVEREIGNTY OVER NATURAL
RESOURCES, LETTER SAYS THAT, SINCE MASSIVE OIL PRICE
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INCREASE OF 1973, OIL-EXPORTING COUNTRIES HAVE EXERCISED
THEIR SOVEREIGNTY WITH PRICE MODERATION, TAKING INTO
ACCOUNT INTERNATIONAL IMPLICATIONS OF THEIR DECISIONS.

3. LETTER FURTHER STATES THAT THE OIL PRICE ISSUE MUST BE
CONSIDERED IN CONTEXT OF LONGSTANDING WORLD ECONOMIC PRO-

BLEMS, INCLUDING SHORTAGES AND INCREASED PRICES OF FOOD, INFLATIONARY TREND, AND WORLD MONETARY INSTABILITY. IT THEN URGES PROTECTION AND IMPROVEMENT OF PURCHASING POWER OF DEVELOPING COUNTRIES, GREATER ACCESS BY THEM TO COMMODITY AND CAPITAL MARKETS, AND A RELIEF OF THEIR HEAVY DEBT BURDEN. LETTER STRESSES THAT OIL PRICE AND OTHER ECONOMIC ISSUES SHOULD BE RESOLVED THROUGH ESTABLISHMENT OF THE NEW INTERNATIONAL ECONOMIC ORDER. LETTER NOTES, HOWEVER, THAT EXPECTED PROGRESS ON THE NIEO HAS NOT BEEN ACHIEVED, URGES SUCCESSFUL CONCLUSION TO PARIS CONFERENCE (CIEC), AND URGES US TO COME FORTH WITH INITIATIVES CONTRIBUTING TO SOLUTION OF INTERNATIONAL ECONOMIC PROBLEMS AND SPEEDING DEVELOPMENT OF LDCS. END SUMMARY OF LETTER.

4. KATZ TOLD ACKOVSKI THAT REPLY WAS DISAPPOINTING. HE SAID IT APPEARED TO HAVE BEEN WRITTEN IN UNCTAD DIVISION OF FOREIGN OFFICE, AND THAT IT REFLECTS THE OPEC VIEW. FOR EXAMPLE, INFLATION ARGUMENT HAS NO FOUNDATION IN FACT; INFLATION SINCE 1975 HAS BEEN ONLY ONE PERCENT OR FOUR PERCENT DEPENDING ON THE INDEX CHOSEN, NOT 10 TO 15 PERCENT. AS FOR FOOD PRICES, THEY HAVE GONE DOWN SINCE 1973-74, WHEN PRICES HAD BEEN HIGH BECAUSE OF POOR HARVESTS IN USSR AND INDIA. LINKING OIL PRICES TO OTHER INTERNATIONAL ISSUES IS A NEGATIVE APPROACH; SUCH LINKAGE COULD, FOR EXAMPLE, BE TAKEN TO INDICATE THAT OIL PRICE RISES MAKE IT HARDER FOR DCS TO RESPOND TO LDC NEEDS.

5. KATZ ALSO STATED THAT THE PRICE RISE IS A NEGATIVE DEVELOPMENT WHICH WILL BE HARMFUL TO WORLD ECONOMY THROUGH INFLATIONARY AND RECESSIONARY IMPACTS. HE NOTED, HOWEVER, CONFIDENTIAL

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THAT THE US WOULD NOT SUFFER AS MUCH FROM THE NEW INCREASE AS SOME INDUSTRIALIZED COUNTRIES, AND EMPHASIZED THAT THE LDCS WOULD SUFFER THE MOST SEVERE IMPACT.

6. FORWARDING COPY OF LETTER TO BELGRADE BY POUCH. ROBINSON

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